

UTILITIES FUND

The Utilities (Water & Wastewater) Fund, a proprietary Enterprise Fund, accounts for water and wastewater operations and is financed and operated in a manner similar to private business industry.

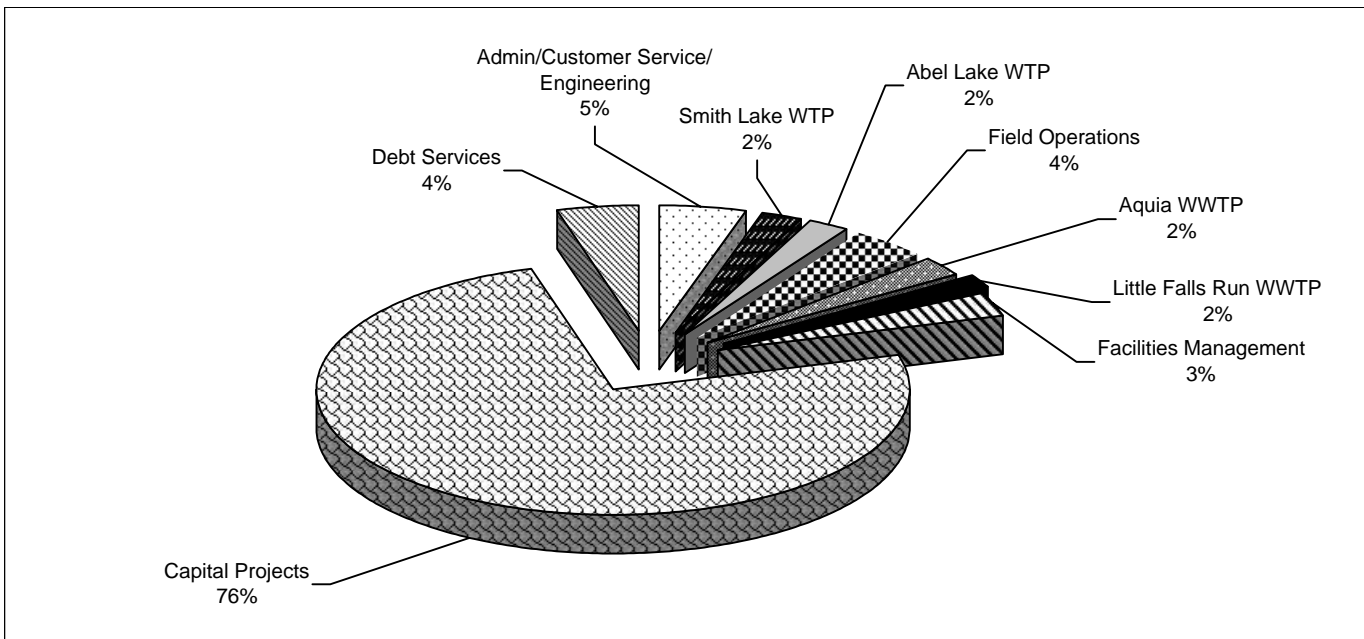
Water and wastewater services are provided to Stafford residents by the Department of Utilities, which was formed in 1982 to consolidate the South Stafford, Aquia and Hartwood sanitary districts into a single utility system. The demand for services has increased approximately 4.9% for Fiscal Year 2006 and is projected to continue to grow at about 5% per year. This growth is due to an increasing population and the need for new water and wastewater infrastructure to support current and future development. The department will serve approximately 31,400 accounts by the end of Fiscal Year 2007. Approximately 1,030 of these are commercial and industrial.

ADOPTED FY2008 UTILITIES FUND BUDGET

Expenditures	Operating	Expansion	Total
Personnel & Operating			
Admin/Cust Service/ Engineering	\$ 5,017,164	\$	\$ 5,017,164
Smith Lake	2,355,626		2,355,626
Abel Lake	2,341,757		2,341,757
Field Operations	4,485,140		4,485,140
Aquia WWTF	2,395,842		2,395,842
Little Falls Run WWTF	1,826,775		1,826,775
Maintenance	3,159,989		3,159,989
Debt Service	363,158	4,254,062	4,617,220
	<u>\$ 21,945,451</u>	<u>\$ 4,254,062</u>	<u>\$ 26,199,513</u>
Capital Expenditures			
Vista Woods P.S.	\$ 67,200	\$ 412,800	\$ 480,000
342 Zone Water Sys Improv	238,000	1,462,000	1,700,000
480 Zone Water System Improvements	36,540	224,460	261,000
370 Zone Water System Improvements	50,400	309,600	360,000
England Run Water Storage Tank	28,000	172,000	200,000
Smith Lake/Route 1 Waterline	210,000	1,290,000	1,500,000
Replace Hickory Ridge Pump Station	16,660	102,340	119,000
Austin Run P.S. & Force Main Upgrades	378,000	2,322,000	2,700,000
Falls Run Sewer Interceptor Upgrades	770,000	4,730,000	5,500,000
Wayside Sewer Interceptor	182,000	1,118,000	1,300,000
Claiborne Run Gravity Sewer Upgrades	280,000	1,720,000	2,000,000
Route 1 North Sewer Line	350,000	2,150,000	2,500,000
Equipment Replacement - Abel Lake	157,000		157,000
Water Tank Painting - Shelton Shop & Cranes Corner	430,000		430,000
Cool Spring Road Waterline Replacement	200,000		200,000
Hillcrest Terr wtr rehab	300,000		300,000
Waterline loop between Lafayette St and Brittany Lane	166,000		166,000
Security Enhancements	50,000		50,000
Pump Station Rehab	3,125,000		3,125,000
Brentsmill Sewer Extension	200,000		200,000
Sewer Rehab Program	500,000		500,000
Motor Vehicles & Equipment	373,000		373,000
Radio Communications	-	2,190,144	2,190,144
Prior Year Carryover	500,000	500,000	1,000,000
Water Extension Projects		2,500,000	2,500,000
Nutrient Removal - Upgrades Aquia & Little Falls Run		10,000,000	10,000,000
Odor Control Upgrades - Aquia & Little Falls Run		1,200,000	1,200,000
Sewer Extension Projects		2,500,000	2,500,000
Utilities Administration Center		500,000	500,000
Rocky Pen Run :			
Treatment Plant		21,350,000	21,350,000
Land purchase		6,500,000	6,500,000
Intake		3,100,000	3,100,000
Reservoir Construction		2,900,000	2,900,000
Mitigation	-	1,500,000	1,500,000
Total Capital Expenditures	8,607,800	70,753,344	79,361,144
Total Expenditures	\$ 30,553,251	\$ 75,007,406	\$ 105,560,657
Revenues			
	User Fees	Expansion Fees	Total
Use of Money/Property	\$ 1,100,000	\$ 1,100,000	\$ 2,200,000
Charges for Services	23,650,650	6,439,000	30,089,650
Miscellaneous	141,000	-	141,000
Bond Proceeds	-	60,000,000	60,000,000
	<u>\$ 24,891,650</u>	<u>\$ 67,539,000</u>	<u>\$ 92,430,650</u>
Use of Repair & Replacement Reserve	5,661,601	-	5,661,601
Prior Year Fund Balance	-	7,468,406	7,468,406
Total Revenues	\$ 30,553,251	\$ 75,007,406	\$ 105,560,657

UTILITIES FUND

	FY2006 Actual	FY2007 Adopted Budget	FY2008		
			Adopted Budget	Changes '07 Adopted to '08 Adopted	
Admin/Customer Service/ Engineering	\$10,631,568	\$4,804,938	\$5,017,164	\$212,226	4.42%
Smith Lake WTP	1,802,850	2,097,404	2,355,626	258,222	12.31%
Abel Lake WTP	1,587,942	1,841,441	2,341,757	500,316	27.17%
Field Operations	3,497,562	3,500,715	4,485,140	984,425	28.12%
Aquia WWTP	1,759,924	2,207,262	2,395,842	188,580	8.54%
Little Falls Run WWTP	1,361,694	1,662,812	1,826,775	163,963	9.86%
Facilities Management	1,983,359	2,821,215	3,159,989	338,774	12.01%
Capital Projects	16,055,975	50,569,000	79,361,144	28,792,144	56.94%
Debt Services	4,297,447	4,647,635	4,617,220	(30,415)	-0.65%
Total Expenditures	\$42,978,321	\$74,152,422	\$105,560,657	\$31,408,235	42.36%



UTILITIES

MISSION

Our mission is to provide water and wastewater services which satisfy the present and future needs and expectations of our customers. Our performance is directed at meeting or exceeding all federal and state requirements. The Department of Utilities strives to provide effective, efficient and reliable service to our residential and business customers. The Department makes every effort to utilize innovative practices and cutting-edge technology in the accomplishment of its mission. Management makes every effort to be supportive and proactive in personnel matters, ensuring that staff members perform at the highest level and take pride in their jobs and the contributions they make to the success of the Department.

GOALS/OBJECTIVES

- Fund capital improvement program to a level sufficient to meet growth, regulatory, and other performance goals
- Fund water and sewer extension program
- Fund maintenance and repair of water and sewer infrastructure. Set aside amount for depreciation of fixed assets
- Fund sufficient staff to fulfill the administrative, operating and maintenance requirements of the water system and sewer system. Provide for professional development of staff
- Fulfill debt service obligations on past borrowing
- Reimburse County for service provided for the Utility
- Provide pump and haul service for health hazards outside sewer service area
- Operate water and wastewater facilities including water production and transmission, wastewater treatment and conveyance, and residuals disposal to meet regulatory requirements
- Review, inspect and test infrastructure constructed by others for the Department of Utilities

SERVICE LEVELS

	FY2006 Actual	FY2007 Budget	FY2008 Budget
Outcomes			
Billion Gallons of Water Treated (Manual Tracking)	3.768	4.085	4.358
Billion Gallons of Wastewater Treated (Manual Tracking)	2.973	3.292	3.487
Outputs			
# of Water and Sewer Accounts Served (HTE System)	30,553	31,930	33,370
# of Miss Utility Locate Requests Processed (Manual Tracking)	22,474	17,800	20,000
# of Work Orders Generated – Field Crew (Hansen System)	4,621	4,800	5,000
# of Backflow Preventers Inspected and/or Tested (Hansen Sys.)	500	500	500
# of Water Meters Read (HTE System)	312,322	326,400	341,110
# of Customer Service Turn-Ons (HTE System)	6,353	6,640	6,940
# of Delinquency Notices (HTE System)	14,100	14,735	15,400
# of Delinquent Water Turn-Offs (HTE System)	2,989	3,124	3,264
# of Plan Reviews (Hansen System)	95	95	95
Service Quality			
Wastewater Treatment Effectiveness Rate - % of days (Manual Tracking)	66.7%	100%	100%
Drinking Water Compliance Rate - % of days (Manual Tracking)	100%	100%	100%
Efficiencies			
Cost to Produce Water (per thousand gallons) (Manual Tracking)	\$0.89	\$0.97	\$1.06
Cost to Treat Wastewater (per thousand gallons) (Manual Tracking)	\$1.04	\$1.17	\$1.19

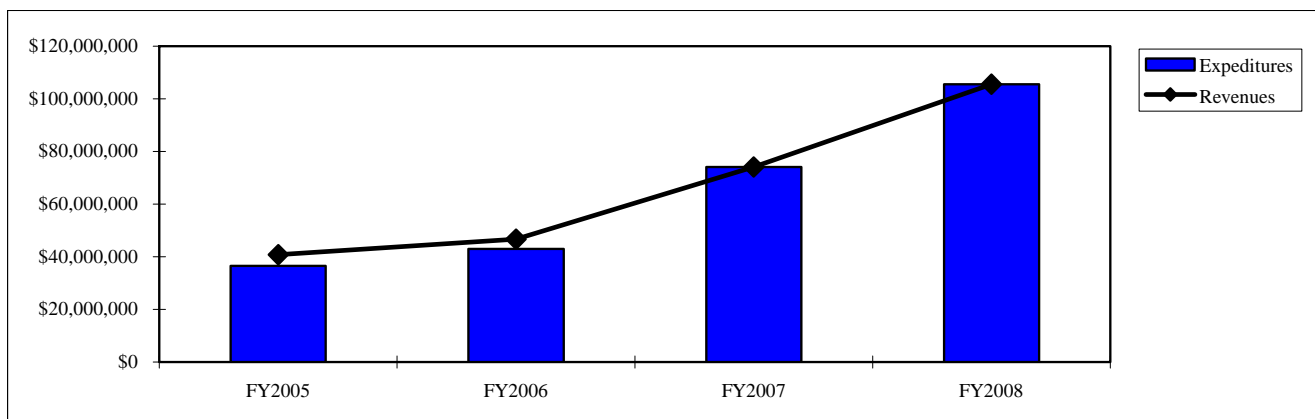
UTILITIES

ACCOMPLISHMENTS

- Completed the replacement of cast iron water mains in the Ingleside subdivision
- Installed emergency standby power generators at water and wastewater pumping stations and water storage tanks
- Completed installation of the Grafton Village replacement water tank
- For calendar year 2006, the Little Falls Run WWTF operated the entire year without any discharge permit violations and again qualified for a Gold Peak Performance Award from the National Association of Clean Water Agencies (NACWA)
- Abel Lake received the “Excellence in Waterworks Performance Award” for optimization of filtration
- Began construction on the Rocky Pen Run reservoir project
- Began project to replace the Claiborne Run Sewer

BUDGET SUMMARY

	FY2005 Actual	FY2006 Actual	FY2007 Adopted Budget	FY2008		
				Adopted Budget	Changes '07 Adopted to '08 Adopted	
Costs						
Personnel	\$7,779,909	\$8,328,948	\$9,302,804	\$10,850,513	\$1,547,709	16.64%
Operating	12,781,872	14,109,413	8,995,953	9,951,080	955,127	10.62%
Capital	11,562,539	16,242,513	51,206,030	80,141,844	28,935,814	56.51%
Debt Service	4,475,738	4,297,447	4,647,635	4,617,220	(30,415)	-0.65%
Total	\$36,600,057	\$42,978,321	\$74,152,422	\$105,560,657	\$31,408,235	42.36%
Water/Sewer Fees	\$16,316,328	\$18,872,451	\$20,468,488	\$23,650,650	\$3,182,162	15.55%
Availability/Prorata Fees	16,177,062	11,814,394	13,718,471	6,439,000	(7,279,471)	-53.06%
Other	448,215	439,594	301,700	141,000	(160,700)	-53.26%
Use of Money/Property	1,751,827	3,061,335	2,500,000	2,200,000	(300,000)	-12.00%
Revenue Bond Proceeds	-	-	27,845,000	60,000,000	32,155,000	115.48%
Donated Assets	6,125,560	12,439,960	0	0	0	0.00%
Prior Year Fund Balance	-	-	9,318,763	13,130,007	3,811,244	40.90%
Total Revenue	\$40,818,992	\$46,627,734	\$74,152,422	\$105,560,657	\$31,408,235	42.36%
Difference	(\$4,218,934)	(\$3,649,413)	\$0	\$0	\$0	
Full-Time Positions	133	134	139	141	2	1.44%
Part-Time Positions	2	6	5	7	2	40.00%



UTILITIES

BUDGET VARIANCES

Personnel variance of 16.64% attributable to:

- Full year cost of first year compensation study implementation (R06-290)
- Second year compensation study implementation (R06-290)
- Increase in health insurance cost as recommended by consulting firm
- One new senior water treatment facility operator
- One new meter reader/technician

Operating variance of 10.62% attributable to:

- Increase in fuel and chemical costs
- Equipment replacement at Abel Lake
- Paving of Moorewood Drive
- Replace generator at Dun Rovin Pump Station
- New pumps for pump stations
- A/C units for VFD bldgs at 6 stations

Capital variance of 56.51% attributable to:

- Construction at Rocky Pen Run storage reservoir
- Nutrient removal upgrades to meet Chesapeake Bay standards
- Falls Run Interceptor Upgrades
- Pump station rehab
- Austin Run pump station and force main upgrades
- Route 1 North sewer line
- Water and sewer system improvements
- Equipment replacement

UTILITIES FUND HIGHLIGHTS

GENERAL

The department is responsible for the water and wastewater systems within Stafford's service area. The service area consists of approximately 50,000 acres along three major transportation corridors: Interstate 95, U.S. Route 1 and U.S. Route 17. There are no private water and wastewater utilities within Stafford. The Department has 141 full-time employees who provide overall planning, administration, customer service, daily inspection, operation and maintenance of the systems. An on-call Field Operations crew and an on-call mechanic handle after-hours emergencies. All water and wastewater treatment plant operators are fully trained and most are licensed. The treatment facilities and field crews maintain an excellent safety record.

Two reservoirs, Abel Lake and Smith Lake, supply water to the treatment facilities. Abel Lake is located in central Stafford on Potomac Creek and is impounded by Abel Lake Dam, an earthen embankment. Smith Lake Reservoir is located in northeastern Stafford on Aquia Creek and is impounded by Smith Lake Dam, an earthen embankment with a roller-compacted concrete emergency spillway. Combined these reservoirs hold over 3.4 billion gallons of water. A third reservoir, on Rocky Pen Run, is currently in the design stage and is expected to be available by 2011. It will provide an additional 5.4 billion gallons of water storage.

The Smith Lake and Abel Lake water treatment facilities provide water treatment. Smith Lake, rated at 10 mgd with a peak capacity of 15 mgd, provides water to the northern region of Stafford; Abel Lake, rated at 6.0 mgd, provides water to the southern region. The water produced by both facilities meets or exceeds the standards prescribed by the Virginia Department of Health and the Environmental Protection Agency. Interconnecting piping allows the transfer of water from one service area to the other, if needed. The water distribution system is comprised of more than 491 miles of pipe ranging in size from 2 to 24 inches in diameter. Two ground storage tanks, two standpipes and ten elevated tanks provide water storage of nearly 16.7 million gallons. The water system has four primary pumping stations. In addition to the County service area, Stafford provides up to 0.75 mgd of water to Camp Barrett at Quantico. Water can also be provided to the City of Fredericksburg and to Spotsylvania County on an emergency basis.

Wastewater treatment is provided by the Little Falls Run and Aquia wastewater treatment facilities with current permitted capacities of 4.0 mgd and 6.5 mgd, respectively. Both treatment facilities utilize Biological Nutrient Removal, ultraviolet light disinfection and the low-load aeration system that allows higher flow rates without adversely affecting treatment. The wastewater collection and transmission system consists of more than 380 miles of gravity sewers, 53 miles of sewer force mains and 82 pump stations.

FINANCIAL AND RATE STRUCTURE

Stafford County operates the Utilities system as a self-supporting entity. The Utility Department has three major sources of revenue.

- *Monthly user fees* pay the operations and maintenance costs of the system.
- *Availability fees* are used to pay for outstanding debt, the construction of new water supply sources, water and wastewater treatment facilities, and neighborhood projects.
- *Pro Rata fees* are used to construct the water tanks, water and sewer mains, and pumping stations identified in the Water and Sewer Master Plan.

Other sources of revenue include connection charges, bulk sale of water, septic haulers fees, pump & haul fees, reconnection fees and inspection fees.

The intent of the County in fixing its rates and fees is to cover all costs of providing service to its customers. The goal is to ensure that new customers connecting to the system pay the entire cost associated with the growth of the system, and that users pay the entire cost associated with current operations, including upkeep.

Stafford has authority to establish and revise water and wastewater rates and adopts an annual budget and capital improvements program. System earnings and issuance of revenue bonds provide financing for capital improvements.

The Board of Supervisors authorized a comprehensive financial management study which was completed in February 2005. Based on the recommendations of the financial study, the Board approved a change to the rate and fee structure which will result in a 9% increase in revenues from user fees in each of the next three years. The last time user fees were increased was 1995.

UTILITIES FUND HIGHLIGHTS

UTILITIES FISCAL POLICY

In November, 2005, the Board formalized their commitment to the sustainability of the Utility with the adoption of the Utilities Fiscal Policy. The intent in establishing the policy is to provide an accounting and planning tool for the Board of Supervisors, the Utilities Commission, and County staff that is easy to administer, understandable and properly allocates costs.

Utilities Fiscal Policy

1. This policy is a long-term planning tool to ensure that sufficient funds are available for present and future financial needs - capital, operating and replacement.
2. Future financial activities of the Utilities Fund will be projected over a twenty-year period, using information from all available sources, including but not limited to, historical and projected financial data, projected growth rates, the County's Comprehensive Plan, and the Utility Master Plan. This forecasting model will be maintained in an electronic spreadsheet and updated annually in conjunction with Budget preparation.
3. The Utilities Fund will be subdivided into two categories: Capacity Expansion and Operating.
4. Sources and uses of funds will be tracked by category using generally accepted accounting principles and used in the monitoring of rate and fee adequacy.
5. Capacity Expansion will be funded by:
 - availability and pro rata fees
 - bond proceeds
 - interest on investments allocated to this category
6. These revenues will be used to pay for:
 - projects required by system expansion, changes in regulations, or changes in technology
 - water and sewer extension projects
 - debt service on bonds issued for such construction
7. The Operating category will be funded by user fees.
8. Operating funds will be used to pay annual operating and maintenance expenses and provide for long-term capital repair, renewal and rehabilitation of capital assets.
9. The Utilities Department is committed to establishing and maintaining an asset management program to include proactive maintenance and long-term funding of its capital reinvestment projects.
10. The Utilities financial position will be analyzed annually in order to identify the need for changes in rates and fees so that necessary increases can be made in small increments, minimizing impact on customers.
11. Stafford County Utilities will be run in a businesslike manner. Rates and fees will be set to ensure that all of the costs of running the Utilities are recovered, including capital repair & replacement, so that the future of the enterprise is secure.
12. The intent in setting rates and fees will be not to provide the lowest rate *right now*, but the lowest rates *over time*.
13. Stafford County recognizes the difference between residential and non-residential users and will break these groups into two classes and set rates accordingly.
 - a. Residential users typically increase outside water usage during the summer months. This additional water usage is primarily discretionary and creates an added burden on the system. It is appropriate that the rate structure be set accordingly.
 - i. A non-peak average will be calculated for each customer.
 - ii. An inclining block rate will be used to bill for water usage, both to offset increased costs to the Utility system and to encourage conservation.
 - iii. Since outside water usage does not create additional wastewater treatment needs, charges for wastewater treatment will be capped based on average usage.
 - iv. Irrigation meters will be billed at regular residential rates.

UTILITIES FUND HIGHLIGHTS

UTILITIES FISCAL POLICY (Continued)

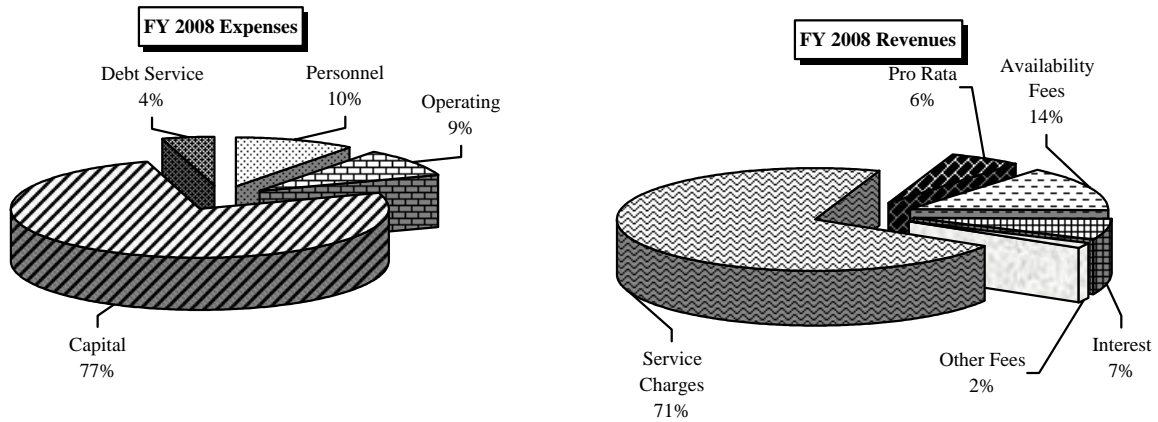
- b. Non-Residential customers typically exhibit consistent year-round water usage and tend to have a natural incentive to conserve water as part of overall cost containment. This steady, predictable usage places a smaller burden on the utility, largely due to economies of scale.
 - i. The non-residential rate structure will consist of a flat rate block.
 - ii. Non-residential customers will not be subject to a wastewater cap.
 - iii. The non-residential class will include apartments.
14. The rate ordinance will include emergency rates which will be in effect for periods of drought or distribution system interruptions, as declared by the Board of Supervisors.
15. The County recognizes the importance of maintaining a cash balance sufficient to meet its needs, both predictable and unforeseen. To that end, “reserve funds” will be established with predetermined minimum balances to ensure the financial health of the enterprise.
16. The minimum cash balance of the Capacity and Expansion category will \$5,000,000 in accordance with the Water and Sewer Line Extension Policy, which requires a that reserve in that amount be maintained to provide funding for water and sewer extension projects as they are identified.
17. An Operating Reserve will be established and maintained in an amount not less than:
 - a. 90 days annual operating and maintenance expenses (to ensure against short-term revenue shortfalls and unanticipated operating expenses and minor repairs); plus
 - b. An amount equal to 5% of the projected costs of repair, renewal and rehabilitation of the County’s capital assets over the next 20 years. This “3R” portion of the Reserve will be used to pay for unexpected major repairs as well as planned replacement or rehabilitation of fixed assets. This minimum amount satisfies the Repair and Replacement Reserve requirement of the Master Indenture.
18. The Department of Utilities will regularly evaluate cash needs and provide a current status of the reserve funds each year to the Board of Supervisors, the Utilities Commission and County staff.
19. A cash flow projection will be prepared annually and provided to the Treasurer to aid in the investment of funds in order to achieve maximum returns.
20. All funding alternatives, including short-term “borrowing” between categories, will be considered in order to meet financing needs and to achieve the most cost efficient operation of the Utilities Fund.

BILLING AND COLLECTION PROCEDURES

Customers receive a monthly bill for services, which is due within 25 days of the bill date. Stafford’s service area is divided into meter routes; each route is then assigned to one of four billing cycles. Bills are mailed on the last four Fridays of each month. The use of the four billing cycles and the recent installation of automated meter reading equipment have resulted in the majority of bills being based upon actual meter readings rather than estimates.

A 10% late payment penalty is assessed on the unpaid balance after 25 days. If the account remains unpaid after 45 days, service may be terminated. Weekly turnoffs are done by cycles. There is a \$30.00 reconnection fee to restore service. Stafford utilizes the Virginia Set-off Debt Collection Program and the issuance of warrants in debt as collection means.

UTILITIES FUND



UTILITIES FUND - WATER & SEWER SERVICES FINANCING SOURCES, USES & BALANCE - 5 YEAR PROJECTIONS

The Utilities Fund Seven-year Projection Model is designed to serve as a tool to assist in long range planning for operating and capital costs. Information projected for 2008 through 2012 reflects only model projections and does not reflect decisions made by the Board of Supervisors. The Fiscal Year 2006 amounts reflect actual audited amounts. The Fiscal Year 2007 amounts reflect the estimates based on midyear revenues and expenses to-date. Projections for 2008 through 2012 include estimates for specific programs where adequate information is available and other increase assumptions are noted below:

Service Charges

Assumes a 9% increase in user fees in 2008 and 2009, and a 5% increase in the number of customers and consumption/usage annually.

Availability Fees

Assumes growth is slightly slower than in recent years, but still increases by 500 additional equivalent residential units per year in 2008, and 1,000 additional units in year 2009 through 2012. Water availability fees were increased by \$2,000 per equivalent residential unit in

Developer Contributions

Assumes developers will pay 100% of their proportionate share of project costs and those contributions will increase 5% annually.

Revenue Bond Proceeds

Large capital projects as indicated on the Adopted Capital Improvements program schedule are to be financed with revenue bonds.

Operations

Assumes cost increases at 1 to 3% a year for most expenditures. However, chemical costs are projected to increase by 32%.

Capital Projects - Enterprise Fund

Includes all planned capital projects except those projects expected to be financed by developers.

Capital Projects - Pro Rata

Capital projects as indicated on the Adopted Capital Improvements Program. These projects would primarily serve a development area of new customers. Developers must provide a pro rata share of these projects under the policy adopted by the Board of Supervisors.

Debt Service

Assumes future debt is issued at a 6.0% interest rate, unless otherwise indicated.

UTILITIES FUND

	2006	2007	2008	Projection			
	Actual	Estimated	Adopted	2009	2010	2011	2012
Revenues							
Service Charges	\$18,370,802	\$18,524,600	\$23,257,650	\$26,618,380	\$28,787,778	\$31,133,982	\$32,326,016
Availability Fees	9,415,909	6,941,791	4,559,000	9,100,000	9,100,000	9,100,000	13,597,630
Developer Contributions/Pro Rata	2,398,486	2,589,100	1,880,000	2,500,000	2,587,500	2,678,063	2,771,795
Interest & Investment Revenue	3,061,335	3,196,900	2,200,000	3,088,175	1,982,784	972,913	719,606
Inspection of Lines/Review Fees	501,649	393,000	393,000	412,650	433,283	454,947	477,694
Other Charges and Fees	424,594	301,700	141,000	148,050	155,453	163,226	171,387
Grants	15,000	1,803,500	-	3,413,000	1,592,300	455,000	0
Revenue Bond Proceeds	-	-	60,000,000	26,000,000	-	-	-
	\$34,187,774	\$33,750,591	\$92,430,650	\$71,280,255	\$44,639,098	\$44,958,131	\$50,064,128
Developer Contrib/Donated Assets	12,439,960	-	-	-	-	-	-
Total Sources	\$46,627,734	\$33,750,591	\$92,430,650	\$71,280,255	\$44,639,098	\$44,958,131	\$50,064,128
Uses							
Operations							
Personnel	\$8,328,948	\$9,384,087	\$10,850,513	\$11,393,039	\$11,962,691	\$12,560,826	\$13,188,867
Other	6,739,693	7,774,502	9,951,080	10,448,634	10,971,066	11,519,619	12,095,600
Depreciation	7,369,720	-	-	-	-	-	-
Capital Projects							
Pro Rata Funded	4,587,358	4,799,500	18,620,000	15,209,960	5,378,440	4,345,580	2,752,860
Operations Funded	3,152,648	2,033,300	9,471,844	7,503,040	4,873,560	5,606,420	4,409,140
Availability Funded	4,761,195	4,670,200	16,700,000	16,250,000	8,800,000	750,000	750,000
Bond Funded	3,741,312	4,124,600	35,350,000	27,545,000	17,143,000	-	-
Debt Service							
Existing Debt-Principal	3,085,000	3,085,000	3,285,000	3,350,000	3,435,000	2,920,000	3,205,000
Existing Debt-Interest	1,212,447	966,600	787,220	544,823	533,268	411,580	277,500
New Debt - Principal	-	-	-	-	-	-	-
New Debt - Interest	-	-	-	3,600,000	3,983,645	3,983,645	3,983,645
New Debt - Issue Costs	-	-	545,000	-	-	493,908	493,908
Total Uses	\$42,978,321	\$36,837,789	\$105,560,657	\$95,844,496	\$67,080,670	\$42,591,578	\$41,156,520
Total Sources Over Uses	\$3,649,413	(\$3,087,198)	(\$13,130,007)	(\$24,564,241)	(\$22,441,571)	\$2,366,553	\$8,907,608
Fund Balance							
Fund Balance, Beginning of Year	\$86,270,076	\$84,843,314	\$81,756,116	\$68,626,109	\$44,061,868	\$21,620,297	\$23,986,850
Designated-Prior Year Commitment	31,844,157	13,000,000	\$20,035,000	16,627,000	9,049,000	2,676,000	1,978,000
Designated - Repair and Replacement	6,286,427	6,685,000	6,685,000	6,685,000	6,685,000	6,685,000	6,685,000
Designated - Operating Reserve	4,289,647	5,486,000	5,460,000	5,733,000	6,020,000	6,321,000	6,321,000
Designated - Extension Reserve	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Restricted Cash - Debt Set Asides	5,219,753	3,283,101	5,477,000	5,477,000	5,477,000	5,477,000	5,477,000
Undesignated	32,203,330	48,302,015	25,969,109	4,539,868	(10,610,703)	(2,172,150)	7,433,458
Fund Balance, End of Year	\$84,843,314	\$81,756,116	\$68,626,109	\$44,061,868	\$21,620,297	\$23,986,850	\$32,894,458
Total Operating Revenues	\$19,083,069	\$19,219,307	\$23,791,657	\$27,179,087	\$29,376,521	\$31,752,162	\$32,975,104
Total Operating Expenses	(20,843,666)	(25,265,281)	(29,718,954)	(31,650,770)	(33,723,764)	(35,949,453)	(38,340,375)
Net Operating Income (Loss)*	(\$1,760,597)	(\$6,045,974)	(\$5,927,297)	(\$4,471,683)	(\$4,347,242)	(\$4,197,290)	(\$5,365,271)
* includes depreciation							
Debt Ratio 1	4.40	3.65	2.52	2.67	2.53	2.62	3.11
Debt Ratio 2	3.35	3.24	2.30	2.52	2.16	2.23	2.41
Debt Ratio 3	7.10	8.75	4.84	2.37	1.29	1.89	2.73

NEW COVENANT REQUIREMENTS: (No. 1 must be met AND either 2 or 3)

1. Net Revenues: 1.20 times Senior Debt Service
2. Net Revenues less 50% of Availability Fees: 1.0 times Senior Debt Service
3. Net Revenues less 50% of Availability Fees plus 50% of unrestricted reserves: 1.5 times Senior Debt Service

Operating Margin (operating income/operating revenues) 0.21 0.11 0.13 0.20 0.22 0.24 0.23

Operating Ratio (operating revenues/operating expenses) 1.27 1.12 1.14 1.24 1.28 1.32 1.30

** excludes depreciation

UTILITIES FUND REVENUE

Utilities Operation	FY 2006 Actual	FY 2007 Adopted Budget	Adopted Budget	FY 2008 Changes '07 Adopted to '08 Adopted	
Water & Sewer Charges	\$18,370,802	\$20,468,488	\$23,257,650	\$2,789,162	13.63%
Water Availability Fees	5,447,219	7,288,563	2,809,000	(4,479,563)	-61.46%
Wastewater Availability Fees	3,968,690	4,550,000	1,750,000	(2,800,000)	-61.54%
Pro-Rata Fees	2,398,486	1,879,908	1,880,000	92	0.00%
Interest on Investments	3,061,335	2,500,000	2,200,000	(300,000)	-12.00%
All Other Accounts	941,243	301,700	534,000	232,300	77.00%
Revenue Bonds	-	27,845,000	60,000,000	32,155,000	115.48%
Donated Assets	12,439,960	-	-	-	0.00%
Total	\$46,627,734	\$64,833,659	\$92,430,650	\$27,596,991	42.57%

Water & Sewer Charges

Utilities customers are billed monthly for water consumption and wastewater usage. Stafford projects 31,400 customers by June 2007. Fees were increased by 9% in January 2007. A 2% increase in new customers is projected. The average residential customer's monthly bill is \$43.53 based on usage of 6,000 gallons.

Interest on Investments

Interest is earned on the cash and investment balances of the Utility Enterprise Fund. Cash and investment balances have been accumulated for debt reserve, future capital expansion and operating expenses.

Water Availability Fees

Customers desiring to use the Stafford water system pay a one-time fee. The fee is \$5,600 for new and existing residences, and \$5,600 for each residential equivalent unit of commercial and industrial customers. These fees are designated for capital expansion. The budget assumes fewer new connections than in previous years.

Wastewater Availability Fees

Customers desiring to use the Stafford wastewater system pay a one-time fee. The fee is \$3,500 for new and existing residences, and \$3,500 for each residential equivalent unit of commercial and industrial customers. These fees are designated for capital expansion. The Adopted budget assumes fewer new connections than in previous years, so the Adopted FY2008 budget shows a decrease in these revenues.

Pro-Rata Fees - Water

Developers pay a pro-rata share of the cost of constructing Stafford's water transmission systems. Fees are based on the estimated impact the development project will have on the appropriate water pressure zone.

Pro-Rata Fees - Sewer

Developers pay a pro-rata share of the cost of constructing Stafford's wastewater transmission systems. Fees are based on the estimated impact the development project will have on the appropriate wastewater zone.

All Other Accounts

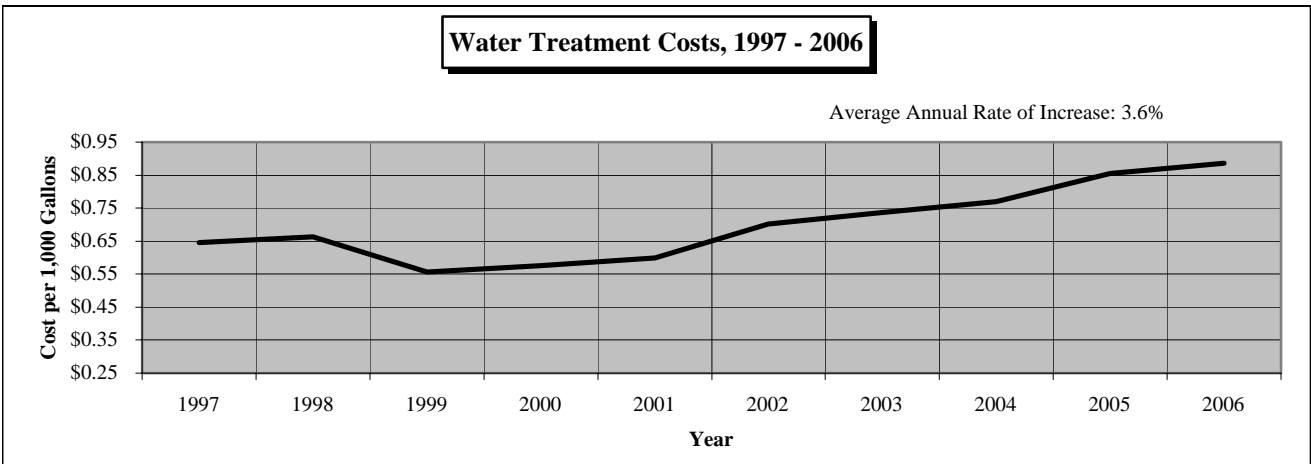
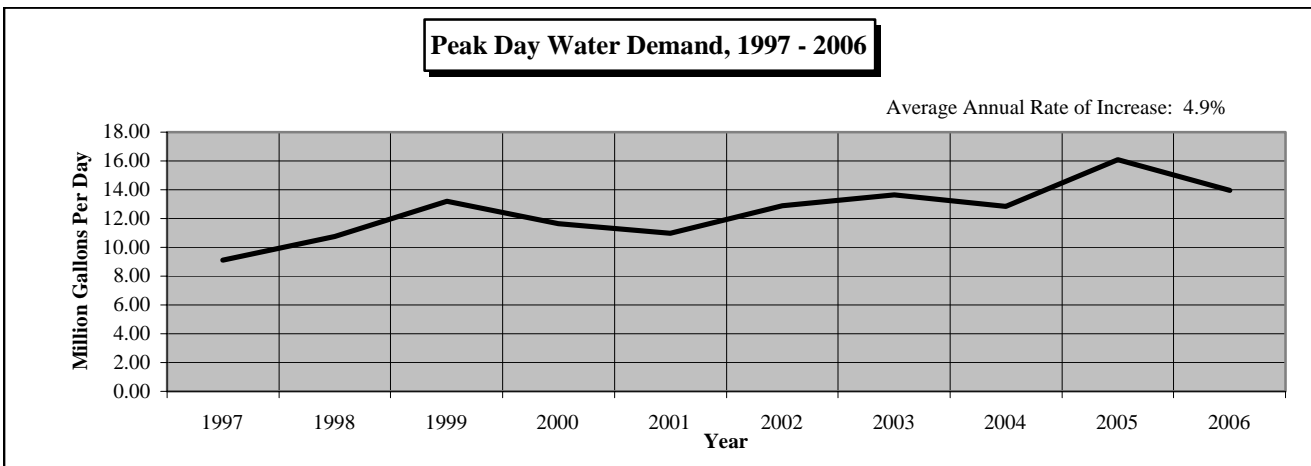
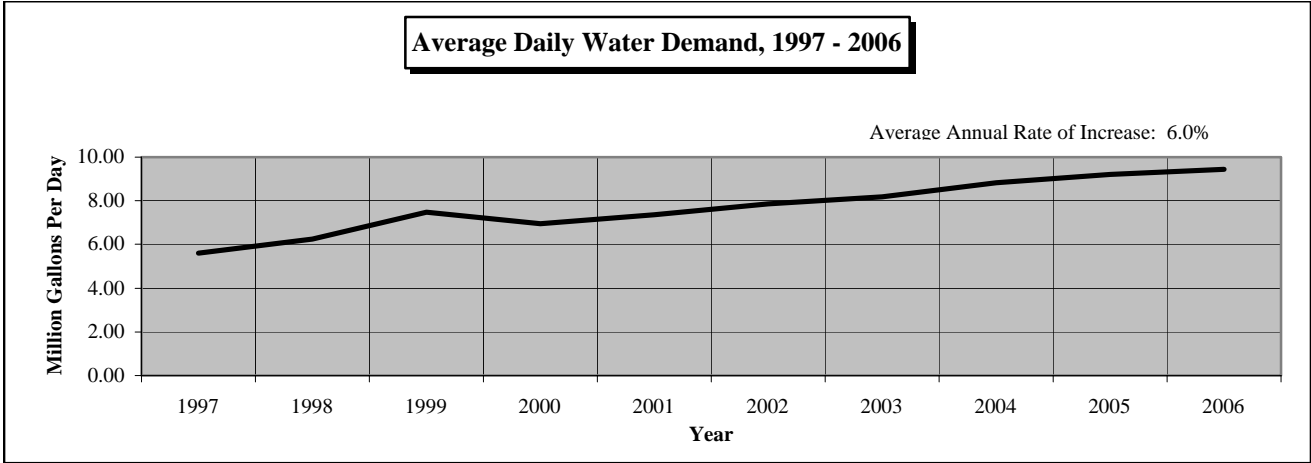
Miscellaneous fees are charged for various other services provided by Stafford.

Department of Utilities
Estimated Unreserved Fund Balance
6/30/2007

	Operating	Expansion
6/30/2006 Cash Balance	\$ 28,101,978	\$ 56,741,335
2007 Projections:		
Revenues		
User Fees	19,219,300	
Availability & Pro Rata Fees		9,071,800
Interest	1,114,000	2,082,900
	20,333,300	11,154,700
Expenses (Includes encumbrances)		
Operations	(16,950,600)	
Capital	(2,965,100)	(27,317,700)
Debt Service	(363,200)	(3,773,700)
	(20,278,900)	(31,091,400)
Change in fund balance	54,400	(19,936,700)
Projected 6/30/07 Fund Balance	28,156,378	36,804,635
Less:		
Debt Set asides	263,523	3,019,578
Advance Payments	1,587,082	
Extension Line Reserve		5,000,000
Operating Reserve	5,486,363	
3R Reserve	6,684,763	-
	14,021,731	8,019,578
Unallocated Fund Balance	\$ 14,134,647	\$ 28,785,057

UTILITIES FUND WATER TREATMENT

Even though average daily water demand has increased at an average annual rate of 5.1% since 1996, the average cost per 1,000 gallons to treat the water has only increased at a rate of 4.1% over the same period.



UTILITIES FUND WASTEWATER TREATMENT

Even though average daily wastewater treated has increased at an average annual rate of 3.9% since 1996, the average unit cost to treat the wastewater has only increased at an average annual rate of 2.7% over the same time period.

Fairly stable unit operating costs can be attributed to economies of scale as fixed costs remained fairly constant while the volume treated increased. In FY2002, the volume treated actually went down as a result of the drought, resulting in an increase in the unit cost to treat the wastewater. Reduced costs are also the result of process optimization and lower chemical costs due to cooperative bidding with other localities in Northern Virginia, Maryland, and Washington, D.C. Efforts to further reduce nitrogen in the wastewater discharged are expected to increase operating costs in FY2006 and beyond.

